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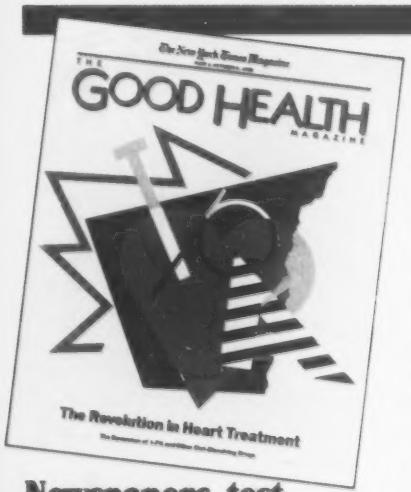
FEBRUARY 1989 THE MAGAZINE FOR MAGAZINE MANAGEMENT $6.50

Dollar stretch

Confronting the new economic realities

Increasing costs and decreasing revenues have publishers on the alert for ways to reduce the wear and tear on the bottom line. Strategies are being developed for every facet of the magazine publishing business that go beyond simple budget cuts. **88**



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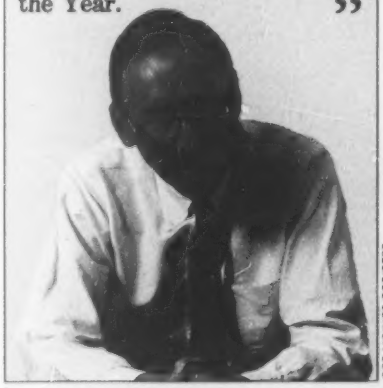


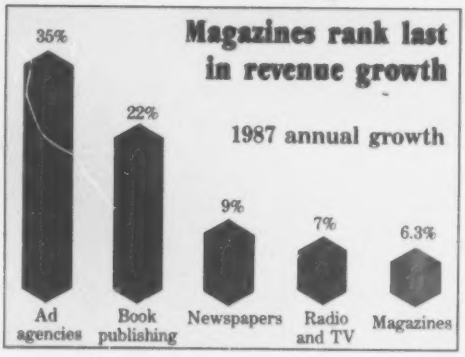
DES MOINES REGISTER

(unfold ⟶)

February 1989

Study says magazine growth lags 24

A growth rate of 6 percent put magazine publishing last in 1987 annual growth compared to other communications industries, according to the Veronis, Suhler & Associates Communications Industry Report.



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moral rights doctrine.

Publishers' fears about Berne have been allayed "to a degree," says Johnston. "There's always the risk that by joining Berne we encourage the development of moral rights law here. I would have been happier if we had gone our separate ways."

Won't stop piracy

Johnston also feels the convention is weak in other ways. Members, for example, agree to protect the copyrights of works originating in other member countries. But Johnston feels that Berne will not expand the copyright protection the U.S. had already enjoyed under other international treaties, such as the Universal Copyright Convention (UCC).

"Several Berne countries suffer from rampant piracy," he says. "The way to stop piracy in Taiwan is to say 'if your don't enforce intellectual property rights, we will address that in our trading relationship with you.' We need remedies with teeth."

Other U.S. organizations, however, have hailed acceptance of Berne. "The United States has taken a tremendous step toward promoting global business opportunities for the U.S. information industry," says Paul Zurkowski, president of the Washington, D.C.-based Information Industry Association. "For more than 100 years our refusal to join the Berne Convention has denied American information companies full protection for their copyrights in the international marketplace."

Joining Berne, moreover, strengthens the U.S. negotiation position in the preparation of a model international copyright law, says Zurkowski. Such a law is being crafted by the World Intellectual Property Organization in Geneva, Switzerland, the same United Nations agency that administers the Berne Convention.

The 100-year-old Berne treaty covers literary and dramatic works, films, music, records, computer software, databases and other copyrighted works published or distributed in other foreign countries. The U.S. had steadfastly avoided joining the Convention until last year, when President Reagan signed legislation passed by Congress, permitting the U.S. to join. The country will officially become a member March 1.—*M.G.*

Survey: Publishers' billing series need improvements

Many titles neglect details that improve pay up: postscripts, stand-out packages

Peoria, Ill.—A good many publishers risk bad pay up response by neglecting the look, wording and frequency of their billing mail, according to a survey conducted by Customer Development Corporation, a magazine collection agency.

During the past four years, vice president Cathy Beers subscribed to 300 consumer magazines, mostly monthlies, and deliberately neglected to pay the bills in order to elicit each title's entire billing series. Her analysis covered the years 1984, 1986 and 1988.

Most striking, she says, is the lack of innovation in billing. Most magazines, she observes, stick obdurately to black and white, or black and red, changing the styling about once every five years. By contrast, a test Beers conducted shows that billing packages that switched from blue to red pulled 50 percent better for half the titles tested.

"If everybody's bill is the same," she says, "you won't get yours opened."

Moreover, in 1988, 84.2 percent of the magazines had tried no new billing packages. The problem, says Beers, may lie in publishers' belief that they will receive printing discounts if packages don't change. "But printers will change the color of packages in later efforts without charging for it," she notes.

Don't stop after three efforts

Furthermore, close to half of all publishers send fewer than five bills in a series, she notes. "If you send only three bills and stop, you're leaving a ton of mail on the table," she says. In her survey, 53.9 percent of respondents mailed five or six bills in 1984, and four years later, 55.2 percent did so.

Magazines also tend to send two rather than three issues to nonpayers before terminating the subscription, she adds. In 1984, 27 percent of the 300 titles mailed two copies, and 29 percent sent three. By 1988, 42 percent sent two, 19 percent, three. "Some publishers are even reducing the number to one," notes Beers.

When it comes to the billing letter, Beers notes, relatively few publishers take advantage of a postscript—the most important part of the billing letter, next to the introduction. "Even if the lead is weak, they will always read the postscript," says Beers. "It should stand out." Nearly 60 percent of the 300 titles tracked in 1988 did without one, she says.

Close to 42 percent of the magazines in 1988 also asked subscribers to send payments "as soon as possible"—a rather ineffectual request, says Beers. Asking readers to pay by a specific date, she says, has been shown in tests to generate more pay up.

More than one-third of publishers last year also

Billing packages that used . . .

No unique package design	84%
Handwriting	2
Soft copy	82
Toll-free number	8
Credit card option	8
No postscript	60
No title or signature	38
Signature of circulation director	22
Signature of collection manager	2

Source: Customer Development Corporation

***Three hundred consumer** magazines were tracked over the past four years for this study on billing and pay up. The table refers to findings made in 1988.*

diminished the impact of their letters by neglecting to provide the signer's title, she says. The later the effort, the more forbidding the title should be: collection manager or general manager.

An encouraging trend, however, is that most circulators in recent years have used a conciliatory tone in the invoice letter. "Since most nonpayers are procrastinators, if you tick them off you'll just lose them," says Beers.

Beers also recommends that publishers not pay for a subscriber's return postage on an invoice—the reader always will. To pay postage, she says, is a waste of publishers' dollars.

Finally, Beers finds that 40 percent of magazines, in all three years, jeopardized themselves from the start by taking 30 days or more to respond, either with a letter or a magazine, to a subscriber's expression of interest. By 1988, the percentage of titles responding in less than 30 days had increased only 17.7 percent.

"You've got to get to readers sooner if you want a faster payoff," Beers point out. "Thirty days is a long time."—*M.G.*

Sluggish growth in magazine publishing

Magazines trail in assets, revenue growth, says Veronis, Suhler report

New York City—At a 6.3 percent growth rate, magazine publishing ranked last in 1987 annual growth, compared to other communications industries, according to the sixth annual Communications Industry Report from Veronis, Suhler & Associates.

Magazines also grew at a relatively sluggish rate over the past five years, according to the report, which compiles five-year financial statistics on 200 public companies. Out of nine communications fields—including newspaper publishing, radio and television broadcasting, filmed entertainment, business information, book publishing and cable television—consumer and business magazine publishing was seventh in five-year compound growth, with a rate of 10.4 percent.

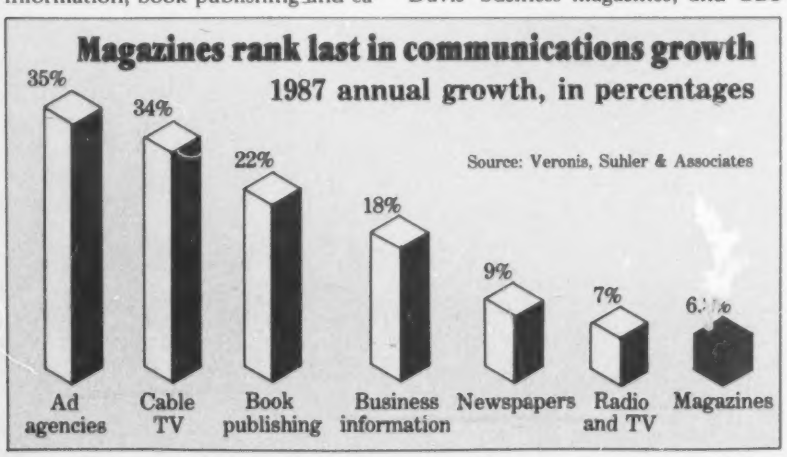
Magazines also ranked seventh in revenues, according to the report. Total revenues were $5.2 billion for 1987, with consumer magazines accounting for $3.2 billion, and business and professional publications locking up $2 billion.

Growth in assets was slow, as well. Magazine publishing ranked seventh in assets, totaling $3.3 billion in 1987, and growing at a rate of 4.1 percent for the year. The five-year compound annual growth rate, by contrast, was 31.8 percent, with growth averaging 42.6 percent annually between 1983 and 1986.

Asset growth was high in 1985, for example, because of several big acquisitions: Time Inc. buying Southern Progress, News Corp. acquiring Ziff-Davis' business magazines, and CBS purchasing Ziff-Davis' consumer magazines, according to Andrew Hornick, research director at Veronis, Suhler & Associates. And, he says, 1988 is expected to be another year of high asset growth because of the $3 billion purchase of Triangle by Murdoch's News Corp.

Notably, magazine publishing in 1987 scored slightly above-average return on assets (ROA) compared to other industry segments: 19.4 percent operating income ROA and 23.9 percent cashflow ROA. Yet, ROA measures declined during the five-year period due to the industry's asset growth during that time.

According to Hornick, the magazine industry might fare better in the financial analysis if private companies could be included in the report. As it is, he notes, the magazine statistics are heavily weighted by Time Inc., which accounted for $1.6 billion in revenues in 1987, nearly four times greater than the next largest company.



***Although lagging behind** with a growth rate of 6 percent, magazine publishing, at least on the consumer side, is still showing good profits.*

Flat ad page growth

The report also reaffirmed some recent magazine trends: Most of the increase in consumer advertising revenues between 1985 and 1987, it notes, resulted from higher prices, not higher page counts. "Ad pages since 1984 were virtually flat," the report states.

More optimistically, the report points out that consumer publishing has become more profitable. "Magazine reading has grown, and more magazines servicing special interests have been introduced," it states. "Furthermore, publishers have been able to raise subscription prices liberally in many markets."

A less healthy picture appears on the business side. "Over the past five years, economic restructuring has altered business magazine publishing perhaps more than any other communications industry segment," the report states. The number of business magazine titles has decreased over the time period, and in the last three years, business magazines have underperformed many other advertising media.

Moreover, the outlook through 1992 is not much rosier. Business magazine spending, the report notes, will increase only 5.9 percent annually from 1987 to 1992—the lowest for any communications segment.—*Jan Jaben*

Crow, president, Gruner + Jahr, "I would not have written that letter either. As a publisher, that's a different story."

"I fail to see why a publisher can make threats but an editor can't," Jordan countered.

Few disagreed, however, on the subject of creating special editorial sections to attract advertising. "As long as the advertising department does not dictate the content of the editorial, I don't have a problem with it," said Dorothy Kalins, editor in chief, *Metropolitan Home*. "The key to remember is that 'compatible editorial' must serve the readers, not just the advertisers," she added.

'Editorial macho' loses out

Other editorial problems, however, proved stickier. *Good Housekeeping*'s John Mack Carter presented one example of an editorial matter with potentially devastating business implications: "At the last minute, a publisher discovered his editor was planning to run photos of a nude model taken when she was 11 years old. The photos were legally obtained, the magazine was on deadline, the pages were ready to ship.

"The publisher was clearly involving himself in an editorial decision by asking to consult with the editor on the wisdom of running the story. The publisher's concern was both the business impact and the question of editorial judgment. What would you do?"

> "It really boils down to how editors walk the line between cooperation and sell-out."

Most attendees agreed that they would consult the publisher prior to running such an explosive feature—"if only to allow the publisher to be prepared for the expected advertising and subscriber fallout," said one audience member.

"It would just be a case of editorial macho to insist on running the piece," Crow added.

"To hell with editorial macho," Jordan said. "I want to sleep at night. I wouldn't run the photos."

In the end, Carter concluded, the editor of the unnamed magazine agreed with the publisher's concerns and opted to kill the story for reasons of "taste and discretion."

Another editor-publisher tangle, Carter noted, occurred at a woman's service book: The editor rejected an ad schedule in which the ad's graphic butted into the editorial and required a copy wrap. The publisher and president backed the editor. The ad agency, however, informed the publisher that his competition took the unorthodox ads, and further, threatened to withdraw all its advertising from the book if the magazine continued to balk.

"The publisher went back to the editor," Carter explained, "and said, 'The agency is putting the pressure on, but whatever your answer is, I will honor it. They are asking us to run the ad once and never again. If we don't, they will punish us; if we do, we will continue to do business with them on other accounts. What's your answer?'"

"Just once?" The editor conceded.—*Dan Shannon*

On-time delivery of monthlies falls sharply

About 76 percent of monthlies were delivered late during the third quarter, up from 64 percent the previous quarter, according to the Red Tag statistics.

Seattle, which delivered 83 percent of monthlies " better than service standard" in the second quarter, plunged to 28 percent this quarter. The number of late deliveries, meanwhile, rose from 17 percent to 33 percent. Still, the city delivers 67 percent of monthlies on time or better. Phoenix also experienced a significant drop. During the second quarter, 75 percent of monthlies were delivered on time, or better. This fell to 60 percent in the third quarter.

Atlanta had the worst delivery score, with 97 percent of monthlies arriving one day late, or later. Pittsburgh was in second to last place, with an 88 percent late score.

The scores reflect delivery from all parts of the nation to the cities listed.□

Delivery box score: Monthly publications, July 1–September 30, 1988

City/(Zip Code)	Better than USPS standard	Service standard	1-6 days late	Later
Composite average*	7%	17%	72%	4%
Boston (021)	2	15	81	2
New York (100)	2	16	71	11
Buffalo (142)	0	67	33	0
Pittsburgh (152)	3	9	77	11
Philadelphia (191)	13	2	65	20
Washington, D.C. (200)	0	15	82	3
Atlanta (303)	0	3	91	6
Miami (331)	14	19	64	3
Memphis (381)	7	10	83	0
Cincinnati (452)	16	25	59	0
Detroit (482)	0	17	80	3
Milwaukee (532)	5	12	80	3
Minneapolis (554)	9	32	59	0
Chicago (606)	10	18	70	2
New Orleans (701)	0	14	82	4
Dallas (752)	11	21	68	0
Houston (770)	7	12	81	0
Denver (802)	6	29	65	0
Phoenix (850)	20	40	40	0
Los Angeles (900)	0	17	61	22
San Francisco (941)	16	38	46	0
Seattle (981)	28	39	33	0

*Includes other U.S. cities and SCFs not listed
Source: Red Tag News Publications Association, Inc.

No improvement on delivery for weeklies

The late delivery score for weeklies remains flat. Red Tag reports that 55 percent of weeklies were delivered late in the third quarter—the same score reported for the previous three months.

On-time scores for New York and Detroit dropped significantly. New York's 60 percent on-time score in the second quarter fell 10 points in the latest measurement. Detroit's score dropped 14 points to 49 percent.

New Orleans and Pittsburgh posted the lowest on-time rates; both delivered 72 percent of weeklies one day late, or later.

San Francisco and Seattle boasted the top scores of 69 percent on-time delivery. Two other Western cities, Phoenix and Los Angeles, delivered 65 percent of weeklies on time. Milwaukee was in third place, with a 57 percent score.

The scores reflect delivery from all parts of the nation to the cities listed.□

Delivery box score: Weekly publications, July 1-September 30, 1988

City/(Zip Code)	On time	1 day late	Later
Composite average*	45%	28%	27%
Boston (021)	33	30	37
New York (100)	50	30	20
Buffalo (142)	52	31	17
Pittsburgh (152)	28	32	40
Washington, D.C. (200)	56	22	22
Atlanta (303)	45	30	25
Miami (331)	49	27	24
Memphis (381)	35	36	29
Cincinnati (452)	32	39	29
Detroit (482)	49	26	25
Milwaukee (532)	57	21	22
Minneapolis (554)	54	26	20
Chicago (606)	36	38	26
New Orleans (701)	28	28	44
Dallas (752)	45	32	23
Houston (770)	34	36	30
Denver (802)	41	33	26
Phoenix (850)	65	18	17
Los Angeles (900)	65	17	18
San Francisco (941)	69	21	10
Seattle (981)	69	17	14

*Includes other U.S. cities and SCFs not listed
Source: Red Tag News Publications Association, Inc.

Business titles rely heavily on freelancers

New York City—Twenty-three percent of business magazines have more than half their copy written by freelancers, reports the Association of Business Publishers (ABP) survey on editorial freelance practices.

The survey was sent to 672 ABP members; 168 responded.

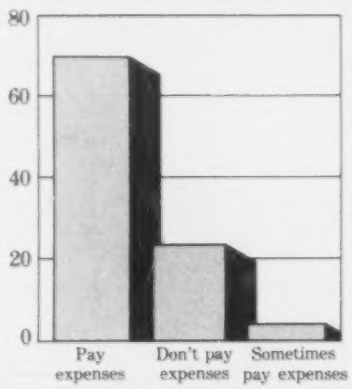
About half the respondents noted that up to 25 percent of their copy was completed by nonstaffers. One quarter of respondents said up to half the copy was freelance written; 14 percent reported up to 75 percent; and 9 percent said that more than three-quarters of the magazine was from outsiders.

The survey also found that 57 percent of editors paid their freelancers upon accepting a story. Other editors released payment after publishing the author's article.

About 71 percent of the magazines also paid for freelancers' expenses when associated with writing an article. Another 25 percent didn't pay expenses, and the remaining titles occasionally made payments.

Although most business titles relied on freelance writers, most of the respondents preferred not to use freelance proofreaders and copy editors. Just 16 percent used part-time proofreaders; 21 percent hired freelance copy editors.—*K.S.*

Most publishers pay freelance expenses



Source: ABP

Most business publishers don't balk at reimbursing their freelance writers' expenses.

Looking for subscribers? Keep promotions simple

New York City—"When you look at all the marketing madness out there, it seems like everyone has moved directly to sweepstakes," says Jeffrey A. Milberg, executive vice president of Telemarketing Concepts. "But when was the last time you saw someone step through less expensive offers first?"

Speaking at a Magazine Publishers of America (MPA) seminar, Milberg urged publishing executives to start small when soliciting new subscribers. Publishers, he says, should first test emotional appeals, which often play upon fear and greed—as in: "You can't do without this magazine." Special discount offers, such as three years for the price of one, can also yield unexpectedly favorable results.

Other inexpensive approaches, he adds, could involve testimonials from readers, special payment arrangements or shorter subscription terms. Selective mailing strategies also work: *The Wall Street Journal*, for example, mails subscription solicitations to prospects whose colleagues already receive the

Dollar stretch: Publishers confront the

Increasing costs and decreasing revenues have publishers on the alert for ways to reduce wear and tear on the bottom line

BY MICHAEL GARRY

In April of 1987, when paper prices were down and postal prices were flat, Tom Ryder saw the handwriting on the wall. In a speech to the American Society of Magazine Editors, Ryder, president of American Express Publishing, foresaw the magazine industry's future in the actions of large industrial and service companies that had been "slashing overheads in order to become more competitive in their markets." Those companies included the television networks, and, closer to home, Time Inc.

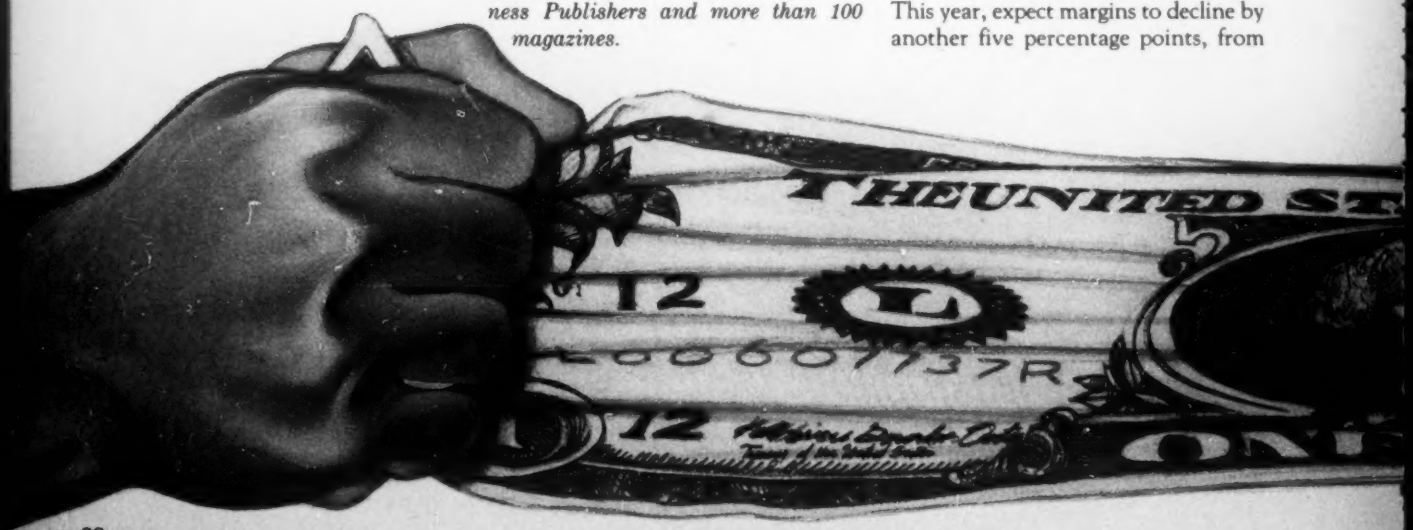
Time Inc., he said, "has seen some ominous signs on the horizon and is making some very smart moves to get ready for them. I think [those] are moves that many of us will have to make. Some of us will make them too late."

As anyone in publishing can tell you, Ryder's prognostications were on target. The magazine industry has just gone through a real hurricane of a year—having been buffeted by four paper price increases (amounting to a 25 percent jump over the previous year) and socked by shockingly high postal increases (18 percent in second class, 25 percent to 33 percent in third class). And as if those cost pressures weren't enough, there were assaults on the revenue side—single-copy sales continued to stumble, and more publishers felt compelled to compromise their advertising rate card price structure.

And costs are expected to increase faster than revenues for the next several years, says Robert G. Burton, president of Capital Cities/ABC's publishing unit, which owns many business magazines through Chilton and Fairchild. Already, the Postmaster General has announced a 1990 rate case filing, and first-quarter 1989 paper increases are seen as likely.

The victim, of course, is the bottom line. In 1988, profit margins fell from a historic high of 13.5 percent by about two percentage points, according to Don Kummerfield, president of the Magazine Publishers of America. This year, expect margins to decline by another five percentage points, from

Data for the chart in this feature were provided by Ivan Inerfeld, a partner in Coopers & Lybrand, certified public accountants. Inerfeld has done work for Magazine Publishers of America, the Association of Business Publishers and more than 100 magazines.



new economic realities

around 11 percent to 6 percent, says Ryder.

The only solace is that 1988 turned out to be a year in which more creative cost-cutting and revenue-enhancing took place than in at least a decade. Publishers have taken a hard look at everything from sortation techniques to double postcards to new delivery systems, and the upshot has been more efficient, better managed publishing operations. Time Inc. has even posted a sign in the second-floor cafeteria forbidding employees from taking fiberglass trays and nondisposable cutlery, plates and glasses back to their offices "due to the extraordinary amount of inventory that has been removed and not returned." This new, stricter approach to publishing magazines will no doubt continue well into the future.

"The cost issue is hitting harder than ever," says Burton. "It's really forcing a lot of people into more direct management of their financial resources." The threat, moreover, is not merely a cyclical, or temporary one, Burton believes. "The Postmaster General told me that the latest postal increase only gets them even. I have to assume that down the road there will be another significant increase. As an industry, we have to be concerned."

Many large publishers, including Burton, are focusing on private mail delivery carriers. "A lot of people are keeping low levels invested in private delivery to keep the possibility alive," notes Ryder. "If the Postal Service gives us another stiff postal increase, the lines are going to cross."

Management strategies

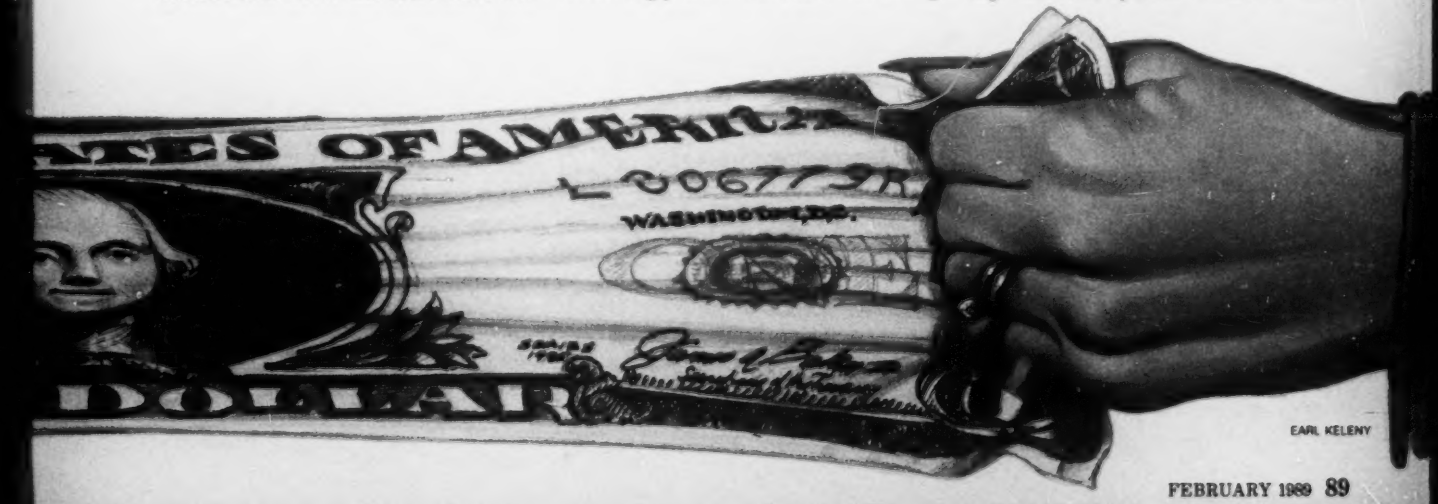
In the magazine business, few publishers have a keener sense of the bottom line than ABC's Burton. Sometimes that has meant ruling with an iron hand: One of his first actions on becoming president of ABC Publishing at the end of 1981 was to fire 14 of the unit's 16 corporate vice presidents. But Burton was able to boost profits from $4 million to $35.5 million in 1985. "The publishing industry will show further reductions in head counts," he says. "It's a fact of life." But ABC Publishing, says Burton, tries to find alternative positions in the corporation or the community for employees let go.

> "The publishing industry will show further reductions in head counts. It's a fact of life," says ABC's Burton.

Last fall, *Newsweek* offered early retirement to 100 employees, or 10 percent of its work force. The employees either had 25 years of service or were 55 years old or older with at least 10 years at the magazine. Two-thirds elected to take the offer.

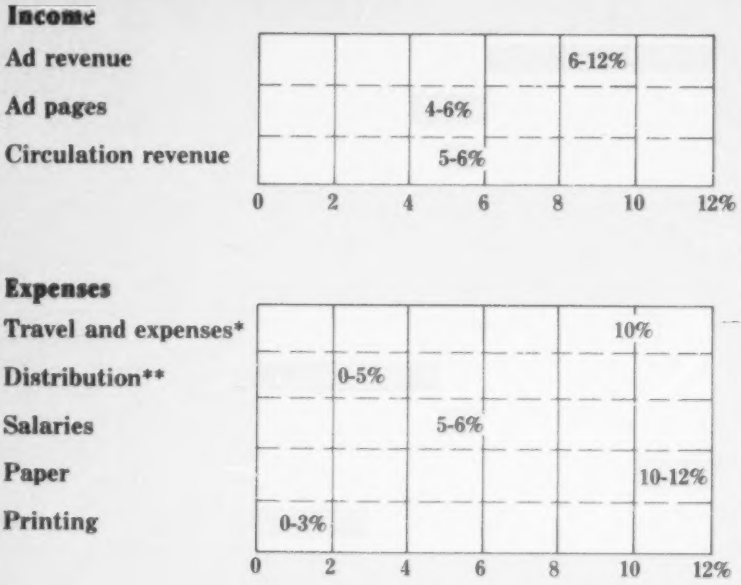
While layoffs and early retirement may be necessary, publishers contacted for this article were not inclined to cut salaries. Gorman Publishing, however, is trying to scale down salary increases to bring them in line with the inflation rate, says vice president/operations Peggy Stath. Most publishers are increasing salaries 4 percent to 7 percent in 1989.

Consolidation of business functions is one response to the cost pressures. McGraw-Hill has established a task force charged with looking at mailing services, postal relations and



EARL KELENY

What publishers are budgeting 1989 increases over 1988



*Reflects expected increases in air fares
**This assumes publishers budgeted 18 percent second class increase, on average, for 1988. The 5 percent represents increased related costs.

Source: Ivan Inerfeld, Coopers & Lybrand

Unexpected expenses: *Even though publishers took anticipated postage increases into account when planning 1989 budgets, the hike in travel costs came late in the game—when most budgets were already in the works.*

manufacturing and transportation in all areas of the corporation to determine if "we can consolidate to maximize our savings," says Lorraine Bradley, vice president of manufacturing and purchasing.

When costs over which they have little or no control (postage and paper) go up, publishers may wish to exert influence over costs (printing and fulfillment) that can be negotiated. Craig Stevens, president of Stevens Publishing, contacted 11 printers before finding a few "who were hungrier than the others. We hope to remain with our current printer, but we are prepared to make a change," he says.

Printers are "the last ones down the line—when publishers can't get from anybody else, they get from printers," says Steve Woolsey, president of the publications division for Gunthorp-Warren Printing Company.

"Management is more frequently asking the question, 'Is this trip really worthwhile?' "

Straight Arrow Publishers will save a "staggering" amount of money by shifting its fulfillment for *Us* to Neodata, which has already been servicing the firm's flagship title, *Rolling Stone*, says circulation director David Obey. Fulfillment companies have been seeing a good deal of price competition in the past few years, although not necessarily because of the postal and paper increases, says Jane Imber, vice president of marketing for Neodata.

Travel and entertainment is a cost area that is also being subjected to closer managerial scrutiny. "We're working hard to make travel and hotel reservations at least 30 days in advance to take advantage of available discounts," says Ned Borowsky, president of North American Publishing Company. Unfortunately, airlines are eliminating some of the discounts for early reservations, which adds to cost pressure.

Borowsky says the company, which publishes 15 trade magazines, spends millions of dollars per year on sales-oriented travel and entertainment.

Peggy Stath says Gorman Publishing's management is more frequently asking the question, "Is this trip really worthwhile?"

When times are tough, magazine publishers sometimes look to ancillary products and activities for additional revenues. Dick Powell, president of North Publishing Company, has gotten into the marketing of books that relate to the industries his firm serves, such as the veterinary field. Ryder, however, warns that ancillary products can be very dangerous for a small company. "I've seen people find themselves with problems and reach out to a new business," he says. "But it's not that simple to create a new business."

The high cost of using the United States Postal Service (USPS) and attracting subscribers has finally persuaded some of the industry's major players to hold and even cut the circulation they guarantee advertisers. *Time* announced last fall that it would cut its rate base by 300,000, to 4.3 million, following a trend started by *Reader's Digest* and *McCall's*. *Time* also said that for the second straight year, it would not increase its ad rates. *Time*'s circulation is particularly expensive because of its extensive use of premiums. The magazine decided that such expenditures were no longer justified for its most marginal subscribers, many of whom belong to less attractive demographic groups.

Advertising agencies generally

lauded *Time*'s move, calling it a healthy sign. Consultant Dan Capell expects other magazines to follow suit. "I've already seen many magazines, where you'd usually observe a 50,000 circulation growth, hold the line."

City and regional titles, in fact, have begun biting the rate-base bullet. *San Francisco Focus*, for example, cut its rate base 25,000, to 200,000. "It's not exclusively a cost concern," says publisher Earl Adkins, also president of the City and Regional Magazine Association. "We're just trying to improve the quality of readership." Many regional titles, he says, are manifesting a new interest in quality over quantity of circulation.

Direct mail, particularly hard hit by postal hikes, is an area where many publishers can take immediate action. It's relatively simple to audit your circulation lists to take advantage of all available sortation levels and get the best postal discounts. McGraw-Hill, for example, will be stepping up its use of pre-sort houses, which sort out disparate mail samples into Zip Code sequence to maximize postal discounts. The company is also experimenting with delivering information electronically to remote locations, and then mailing it to save on postal costs. Other direct mail strategies:

- Stevens Publishing uses optical scan strips on first- and third-class mail that earns a $5 per thousand discount.
- *Financial World* is exploring simpler, less expensive direct mail packages—the order form and copy are all on one piece—"to improve our margins," says Lawrence Hedblom, circulation director.
- *Southern* includes most of its bills and renewals with the publication in polybags—an option that is still permitted under the USPS's revised polybag rules. Unfortunately, the USPS has outlawed sending solicitations in another magazine's polybag—an option that Alan Leveritt, publisher of *Southern*, had used extensively, offering his magazine's polybag as a carrier in exchange. "We got a higher response riding along in *Inc.*'s polybag than by mailing to their list," notes Leveritt. "That was one of the greatest cost-savers and revenue generators. It's a pity they had to cut it out." Until the rule goes into effect March 20, Leveritt's solicitations will be riding along in as many different polybags as possible.

Direct mail consultant Elaine Tyson observed a sharp decline in direct mail efforts in the early part of 1988, but by the fourth quarter, business was back to normal. She is encouraging publishers to test double postcards and packages that do not contain brochures. Indeed, last year double postcards became the darling of magazine circulators, who used them frequently in free sample solicitations.

Consultant Vince Dema suggests that publishers use the National Change of Address (NCOA) service to prescreen their mailing lists for incomplete or incorrect addresses. The extra cost, he belives, is well worth it. Tyson recommends keeping list quantities smaller, and cutting out "third level lists" that go beyond your core market.

"Audit your circ lists to take advantage of all available sortation levels and get the best postal discounts."

Despite the postal increases, many publishers are still mailing extensively to maintain their rate bases. "We've intensified our direct mail efforts because of soft newsstand sales," says ABC's Burton. Some publishers, however, are experimenting with alternative sources of subscribers—such as package inserts, card decks and television spots.

Pay attention to second-class savings

Pay attention to second-class savings, too. "We're looking forward to the discount for palletization, says Tom Tully, McGraw-Hill's vice president of operations. Gorman Publishing's printer runs the firm's circulation list through a sortation program to maximize postal savings, says Stath. Because of the jump in second-class international rates, Gorman is also looking at cutting its Canadian circulation—or converting controlled Canadian subscriptions to paid.

Ad sales is an area of publishing affording relatively few opportunities to cut costs. Ned Borowsky, however, found one—the reader service card. Borowsky does not allow any company that doesn't advertise in his publication or in any of his competitors' magazines to receive an editorial plug for a product—and a free ride on the reader service card. This saves him some $75,000 per year in reader service processing fees, he says. He is also removing nonadvertisers from the promotion list.

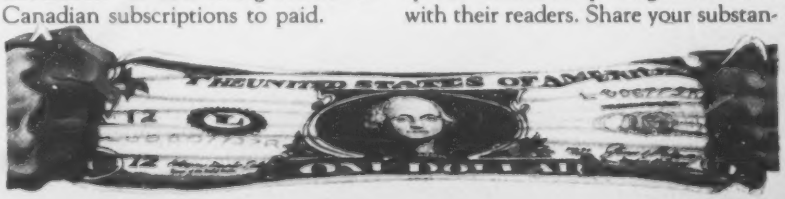
Another tactic recently employed by a growing number of publishers is the elimination of the 2 percent discount for ad agencies that pay their bills within 10 days. Agencies, needless to say, are furious about the move.

In the editorial realm, publishers usually make cost cutting moves with great care, if at all. However, Powell of North Publishing plans to reduce the percentage of editoral in his two business magazines from 60 percent to 50 percent, thereby cutting mechanical and printing costs, as well as postage costs per page of advertising. Consultant Rita Stollman sees some publishers deferring editorial training programs or the hiring of additional editors. Some, she says, are restructuring freelance, graphics and travel/entertainment budgets.

Attack on editorial?

In his speech to the American Society of Magazine Editors, Ryder warned that the pressure on profits may well lead to an attack on editorial. He urged the editors to "get yourselves ready. Begin to rid yourself of excess. If you don't, I promise the financial guys will do it for you." Editors, he added, could also protect themselves by speaking out against excesses in other departments.

Ryder also encouraged the editors to develop more interest in the advertising side of the business. Not that editors should sell the editorial product or make sales calls, he stressed. "But you should become an advocate for your magazine. Tell [advertisers] about the special relationship magazines have with their readers. Share your substan-



tial knowledge of your audience. Get them enthusiastic about magazines."

The production side offers myriad cost-cutting possibilities. *Southern*'s Leveritt plans to use lower-grade paper for the black-and-white pages in the back of the magazine, and to cut the trim size by one-eighth inch to eight inches. That reduction will save $1,000 per month, he says. Gorman's Stath went from 40- to 38-pound stock for all six of the firm's trade magazines, reducing paper costs by 2 percent to 3 percent. ABC's Burton is intensifying efforts to consolidate his paper purchases and make larger buys.

Straight Arrow Publishing has moved all print buying—including magazine and promotional print—into the circulation department, says circulation chief Obey. The full-time print buyer will be able to "buy smarter," he says, and have access to "every possible discount." The manufacturing and production department had been in charge of buying magazine print, but tended to relegate promotional print to a much lower priority. "But for the new print buyer, promotion will be her first responsibility," notes Obey.

ABC Publishing has set up several task forces to investigate upgrading its production systems with state-of-the-art technology. The hottest candidate, says Burton, is desktop publishing, regarded by many as a means, ultimately, to reduce pre-press costs. "With the new technology," Burton adds, "the payback period is shorter and shorter."

Rush toward desktop

Consultant Jeff Parnau, who runs a preparation house, also observes a rush toward desktop publishing because of its greater efficiency and control, lower cost and faster turnaround. "Two years ago, it was nonsense," he says. "Today we're seeing customers come in with negatives produced by desktop systems."

The one catch with desktop technology is that its speedy development makes any given machine virtually obsolete in two years. Parnau, however, has come up with a co-operative buying arrangement that could nullify that problem. He is looking for five publishers to contribute $12,000 each toward the purchase of a $60,000 desktop output device. For a fee of about $300 per month, a participating publisher "can own current desktop technology you can't possibly saturate in terms of volume." Such an output machine could cut typesetting and page make-up costs by at least half, he says. Editorial consultant Stollman, however, warns that many publishers are rushing into desktop publishing without considering the bottom-line impact. "People get starry-eyed about computers," she says, "forgetting that computers are very labor intensive." When *Business Week* incorporated Atex, she adds, the make-up desk tripled and the copy desk doubled.

"But computers are labor intensive: When *Business Week* added them, the make-up desk tripled and the copy desk doubled."

In a typical year, publishers would raise their ad rates between 4 percent and 7 percent. Rate hikes for 1989, however, have averaged between 6 percent and 9 percent, according to ad consultant David Orlow. Moreover, the double-whammy cost pressures of recent times, says Orlow, have persuaded some publishers who've drifted away from the rate card to demonstrate greater loyalty to it.

Advertisers are said to be somewhat understanding of the higher-than-usual rate increases. "Agencies and clients have not received price increases in the last few years," says Jay Burzon, vice president of *American Health*. "They're now accepting 6 percent to 8 percent increases because they realize there are causative factors."

City and regional titles are raising ad rates between 5 percent and 10 percent, says Earl Adkins, publisher of *San Francisco Focus* and president of the City and Regional Magazine Association. "Regional magazines are not like national magazines," he notes. "Our page rates are not that huge."

Some publishers, of course, are wary of raising rates too much lest they antagonize discount-happy advertisers. "We're uncomfortable about the tenuous situation in the marketplace," says Powell of North Publishing. Powell raised '89 rates by 5 percent. Indeed, some ad agency executives have been quoted as saying they find anything more than a 5 percent increase to be unfair.

Getting out of the cost mess

Burton warns that ad rate hikes alone will not compensate for the full amount of cost increases. But to Ryder of American Express, which will experience an extra postage and paper cost hit of $3.5 million in 1989, revenue enhancement is the key to getting out of the cost mess. On the advertising side, Ryder is raising rates for the company's four titles from 9.5 percent (for *Travel & Leisure*) to 40 percent (*L.A. Style*). "A lot of people could try to sail through with 3 percent to 4 percent increases," he says. "But that could mean changes in production, fewer pages, cheaper stock, smaller trim size, cutbacks in editorial—all of which are counterproductive. We'd rather bite the bullet up front and reflect the marketplace than compromise our quality." But just to hedge his bets, Ryder is announcing a new corporate discount program along with the rate increases.

Ryder's approach to circulation pricing has also been very aggressive. Since 1984, the basic subscription price of *Travel & Leisure* has risen from $19 to $30, and all discounts have been eliminated; *Food & Wine*'s price doubled from $12, *New York Woman*'s jumped from $11 to $20, while newly acquired *L.A. Style* will soon see its basic price rise from $18.

While raising prices, Ryder is trying to add value in the form of paper quality, cover graphics and editorial variety. *Travel & Leisure*, for example, comes out in six regional editions and one demographic edition targeted to business travelers.

Ryder strongly believes that the industry as a whole is guilty of underpricing magazines. "The concept of selling a magazine for $1 per copy when it costs $1 to make it and $2 to sell it is

a grave and fundamental mistake," he says. "The new economics of this business will not allow it much longer."

Consultant Capell expects to see a new round of circulation price increases. The last major go-round took place in the late 1970s when the newsweeklies doubled the circulation prices. "We're on the verge now of something as significant as that," he says. Last fall, *Woman's Day* and *Family Circle* raised their cover prices from 99 cents to $1.09, while *McCall's* broke the $1.50 barrier, pricing its title at $1.69. Capell also predicts that publishers will shoot for longer-term subscriptions.

> "The fastest growing cost elements are circulation acquisition and maintenance, sales and editorial."

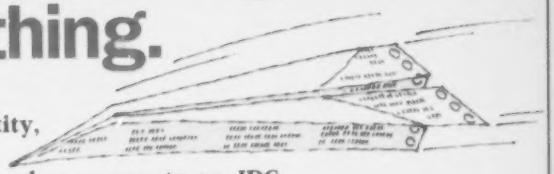
Brave new world

MPA's Kummerfield regards the cost pressures on the magazine industry as more complex than just postal and paper increases, which hurt so much because they took place at the same time. Paper and postage, he points out, are not growing as a percentage of magazine costs. The fastest growing cost elements are circulation acquisition and maintenance, sales and editorial.

"Over the long term we need more efficient ways to acquire and maintain circulation, to sell ads and manufacture and distribute our magazines," says Kummerfield. Although individual publishers are addressing these issues, the industry as a whole has just begun the process of systematically dealing with them.

Efforts to contain costs will no doubt persist throughout the year and into the 1990s. For publishers, it's a brave new world. "I think we will go through a tough period in the next couple of years," says Ryder. "Some of our magazines will go away. But we are a smart, resilient industry. Those of us who prepare for it will get better and stronger and once again it will be a great time to be publishing magazines." □

Those other computer lists must be good for *some*thing.



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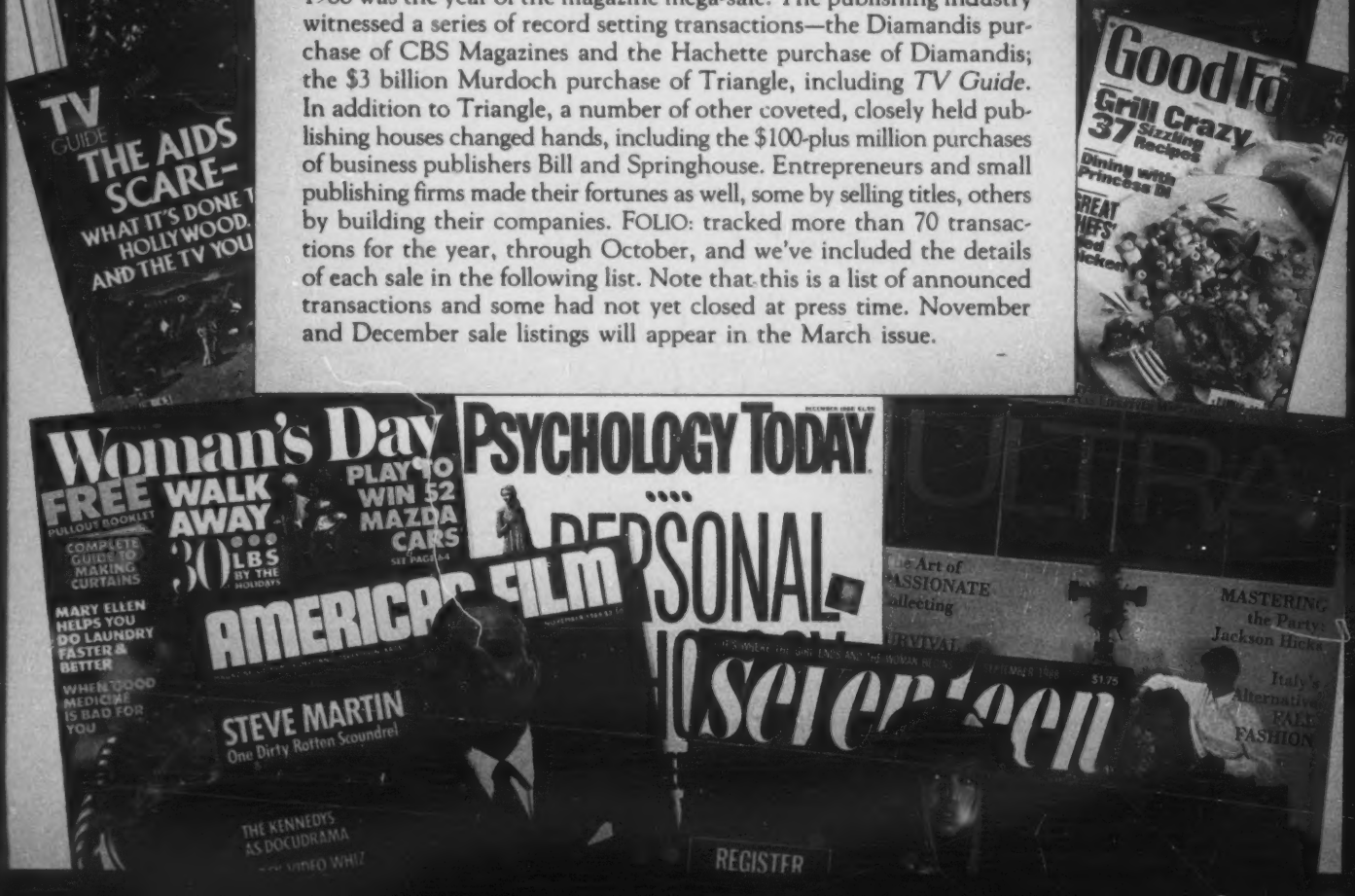
Data Source

'88: The year of the mega-sale

1988 was the year of the magazine mega-sale. The publishing industry witnessed a series of record setting transactions—the Diamandis purchase of CBS Magazines and the Hachette purchase of Diamandis; the $3 billion Murdoch purchase of Triangle, including *TV Guide*. In addition to Triangle, a number of other coveted, closely held publishing houses changed hands, including the $100-plus million purchases of business publishers Bill and Springhouse. Entrepreneurs and small publishing firms made their fortunes as well, some by selling titles, others by building their companies. FOLIO: tracked more than 70 transactions for the year, through October, and we've included the details of each sale in the following list. Note that this is a list of announced transactions and some had not yet closed at press time. November and December sale listings will appear in the March issue.



Mergers and acquisitions – 1988

Acquiring company	Magazine	Audience	Frequency	Circulation in thousands	Seller	Price in millions
January						
Equal Opportunity Publications	*Social Issues and Healthcare Review*	General issues in healthcare development	Quarterly	30	United Cerebral Palsy Association	N/A
Family Media, Inc.	*Taxi*	International women's fashion	10 x	250	Taxi Publishing, Inc.	N/A
Cowles Media Company	*Catalog Age*	Catalog publishers	Monthly	12	Hanson Publishing Group	N/A
	Curriculum Product News	Educators	Monthly	50		
	FOLIO:	Publishers	Monthly	11		
	Inside Print	Advertising community	Monthly	31		
MCP, Inc.	*San Francisco Business Times*	Regional business	Weekly	2	American City Business Journals, Inc.	$5
PCI Communications, Inc.	*P-D News*	Vendor-specific computer publication	Biweekly	5	August Noble	$2
Reader's Digest Association, Inc.	*Family Handyman*	Men's home	Monthly	1,206	Maxwell Communication	N/A
Reader's Digest Association, Inc.	*50 Plus*	Mature market	Monthly	504	Whitney Communications Company	N/A
Rodale Press, Inc.	*American Woodworker*	People interested in working with wood	Quarterly	50	Jim Jennings	N/A
Simon & Schuster	*Home Healthcare Nurse*	Practicing professional nurses working in homes	Bimonthly	N/A	Hospital Publishing Inc.	$2.5
February						
Billboard Publications Inc.	*Hollywood Reporter*	Entertainment industry	Daily	21	Hollywood Reporter, Inc.	$30
Coast Publishing, Inc.	*Southern Graphics*	Graphic arts	Monthly	11	Southern Graphics, Inc.	N/A
Historical Times, Inc.	*Bowhunter*	Bowhunters	Bimonthly	148	Blue-J Inc.	N/A
J. B. Lippincott Company	*Journal of Cardiopulmonary Rehabilitation*	Health care	Monthly	17	Haymarket-Doyma	N/A
MCP, Inc.	*Philadelphia Business Journal*	Business in Philadelphia	Weekly	11	American City Business Journals, Inc.	$46.3
Medcom Partners	*Hospimedica*	Medical and surgical	7 x	29	TechCom, Inc.	$5*
	Labmedica	Medical laboratory field	Bimonthly	21		
March						
Advanced Publications, Inc.	*Details*	New Yorkers with an interest in style and fashion	Monthly	100	Alan Patricoff	N/A
American Health Inc.	*Psychology Today*	Amateur psychology	Monthly	850	American Psychological Association	$5-10
Bales Group	*Horticulture*	Gardening	Monthly	230	Horticulture Partners	N/A
Capital Formation	*Get Rich News*	People interested in getting rich	Bimonthly	100	Get Rich, Inc.	$3.4
Charleson Publishing	*Food & Beverage Marketing*	Food and beverage manufacturers	Monthly	20	International Thomson Retail Press	N/A
Devan Shumway	*Oil Daily*	Oil drillers, refiners and explorers	Daily	4	Whitney Communications	$8
Initial Publications, Inc.	*Fastener Technology International*	Fastener and cold heading	Bimonthly	12	International Thomson Industrial Press	$6.5*
	Wire Technology International	Bars and fabricated wire manufacturers	Bimonthly	12		

* Group purchase price

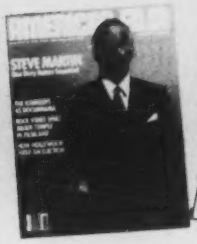
(CONTINUED ON PAGE 115)

Mergers and acquisitions – 1988

Acquiring company	Magazine	Audience	Frequency	Circulation in thousands	Seller	Price in millions
March (CONTINUED FROM PAGE 112)						
Murdoch Magazines	*In Fashion*	Consumer and business fashion	Bimonthly	240	VSI Publishing Corp.	N/A
	Sportswear International	Sportswear retailers	8 x	19		
Professional Photographer of America, Inc.	*Photomethods*	Professional photographers	Weekly	53	Lakewood Publications	N/A
Robert and Alicia Spooner	*Oregon Coast*	Regional	Monthly	32	Russ and Nell Heggen	N/A
VNU Business Publishing Company	*Electronics*	Electronics publication	Monthly	147	McGraw Hill Inc.	$17-20
April						
Cahners Publishing Company	*Accessories/Today*	Accessory buyers	N/A	14	Communications/Today, Ltd.	$35*
	Design Today	Designers	Quarterly	25		
	Furniture/Today	Furniture	Weekly	23		
	Home Textiles Today	Textiles	Biweekly	12		
	Professional Upholsterer	Upholstering business	Bimonthly	12		
	Today's Furniture Designer	Furniture design	Quarterly	16		
	Upholstering Today	Upholsterers	Bimonthly	10		
	Video/Today	Video industry	N/A	N/A		
F & W Publications, Inc.	*Inspirational Writer*	Religious	Monthly	5	Dobbs Publications	$.1
Independent News Corporation	*Cruzan*	Santa Cruz, California, tourist publication	Quarterly	35	GT, Inc.	N/A
	Good Times	Party	Weekly	40		
Johnston International Publishing Corporation	*Industry International*	Plant production dealing with technology and management	9 x	40	Lineal Publishing Company	N/A
LFP, Inc.	*Analog Computing*	Computer	Monthly	80	Analog Magazine Corporation	N/A
	ST-Log	Computer	Monthly	50		
North American Publishing Company	*Windward Mark*	New England Sailers	Monthly	2	N/A	N/A
Phillips Publishing, Inc.	*Avionics*	People interested in flight and airborne systems	Monthly	16	Len Buckwalter	$2
Ziff-Davis Publishing Company	*MacWeek*	Computer	Weekly	40	Patch Communications	N/A
	Computer Shopper	Computer users	Monthly	N/A		
	PC Clones	Computer	N/A	N/A		
May						
Link House Advertising Periodicals Ltd.	*For Rent*	Apartment hunters	Biweekly	N/A	Diversified Communications, Inc.	$15

* Group purchase price

(CONTINUED ON PAGE 116)



Mergers and acquisitions – 1988

Acquiring company	Magazine	Audience	Frequency	Circulation in thousands	Seller	Price in millions
June (CONTINUED FROM PAGE 115)						
American Express Publishing Company	*L.A. Style*	Regional	Monthly	54	L.A. Style, Inc.	N/A
Billboard Publications Inc.	*American Film*	Film buffs	10 x	130	American Film Institute	N/A
Clapper Publishing Company	*Decorative Arts Digest*	Decorative artists	Monthly	12	Im-Tru, Inc.	N/A
Digital News Publishing	*Hard Copy*	Users of DED computers	Monthly	80	Seldin Publishing	$8
Elsevier	*Learning '88*	Education	9 x	250	Springhouse Group	$90*
	Nursing '88	Nursing field	Monthly	443		
	Office Systems '88	Business offices	Monthly	97		
Gordon Publications	*Computer Reseller*	Computer system and product users	Weekly	42	International Thomson Retail Press	$4.5
Hachette S. A.	*American Photographer*	Photograhers	Monthly	250	Diamandis Communications Inc.	$712*
	Audio	Stereo enthusiasts	Monthly	149		
	Boating	Informed powerboaters	Monthly	192		
	Car and Driver	Car enthusiasts	Monthly	918		
	Cycle World	Cycle enthusiasts	Monthly	270		
	Memories	Nostalgia buffs	Bimonthly	350		
	Flying	Active Pilots	Monthly	331		
	Popular Photography	Photographers	Monthly	751		
	Road and Track	Automotive enthusiasts	Monthly	703		
	Stereo Review	Stereo enthusiasts	Monthly	550		
	Cycle	Motorcycle enthusiasts	Monthly	350		
	Woman's Day	Contemporary women	15 x	69,000		
Milier Publishing	*Farm Supplier*	Retail farm suppliers	10 x	40	Watt Publications	$2
PSC Publications	*Creative Ideas for Living*	Home decoration and design	Monthly	778	Southern Progress	$7.5
Quantum Publishing	*Nursing Homes*	Proprietary nursing homes field	Bimonthly	4	Centaur Corp.	$.8
Scholastic Inc.	*Child Care Center*	Child care	Bimonthly	35	Lake Publishing	$1.5
Senior Service Corp.	*Golden Years*	Mature Floridians	Monthly	720	Steven and Carol Hitter	$1
The Brady Co.	*Corporate Report Wisconsin*	Business in Wisconsin	Monthly	24	CRW Inc.	$.6
The High Point Enterprise, Inc.	*Triad Business*	Regional business	Weekly	15	Spectator Publications, Inc.	N/A
July						
Associated Publications Corp.	*The Florida Constructor*	Local construction	N/A	N/A	Associated General Contractors	N/A
F&W Publications	*How*	Art news	Monthly	35	RC Publications	N/A
Krause Publications, Inc.	*Trapper & Predator Caller*	Fur trappers	Monthly	51	Spearman Publishing	N/A
	Turkey Hunter	Turkey hunters	8 x	12		
Matilda Publications, Inc.	*Ms.*	Women	Monthly	485	Fairfax Publications	N/A
	Sassy	Young Women	Monthly	250		
News Corp.	*Good Food*	Food lovers	Monthly	650	Triangle Publications, Inc.	$3,000*

* Group purchase price

(CONTINUED ON PAGE 120)

Mergers and acquisitions – 1988

Acquiring company	Magazine	Audience	Frequency	Circulation in thousands	Seller	Price in millions
July (CONTINUED FROM PAGE 116)						
	Seventeen	Teenage girls	Monthly	1804		
	TV Guide	Television viewers	Weekly	17314		
Petersen Publishing Company	*Sport*	Sports enthusiasts	Monthly	932	Sport Magazine Associates	$8-10
Petroleum Finance Co.	*Petroleum Intelligence Weekly*	Petroleum	Weekly	N/A	PIW, Inc.	$12
Sutherland Media, Inc.	*Ultra*	Regional	Monthly	80	Norma Myers	N/A
August						
Micromedia Affiliates	*L.A. West*	Regional	Monthly	51	Santa Monica Bay Printing and Publishing Company	N/A
P.S.N. Corp.	*Corporate Television*	Television	Bimonthly	17	Media Horizons, Inc.	N/A
	Videography	Video	Monthly	28		
PTN Corp.	*Advanced Imaging*	Imaging	Bimonthly	18	Media Horizons, Inc.	N/A
	Industrial Photography	Photography	Monthly	46		
Telemedia, Inc.	*Harrowsmith*	Environmentalists	Monthly	225	Camden House Publishing, Inc.	N/A
September						
Ankur Management Systems	*Circulation Management*	Circulation directors and managers	Bimonthly	10	Aster Publishing	$1.3
Argus Press Limited	70 U.S. titles	Varies	Varies	Varies	Argus Press Group	$351*
Business News Publishing Co.	*Industrial Heating*	Heat treating trade	Monthly	22	National Industrial Publishing Co.	N/A
Business News Publishing Co.	*Paint & Coating*	Industry manufacturers	Bimonthly	17	Western Trade Publishing	N/A
Dobbs Publications	*Corvette Fever Magazine*	Corvette owners	Monthly	115	Prospect Publishing Co., Inc.	N/A
	Decorative Products World	Retailers	Bimonthly	33		
Hachette S. A.	*Elle*	Women	Monthly	851	News Corp. (original 50 percent interest)	$150
Medcom Partners	*Illustrated Medicine*	Medical	N/A	50	Wynwood Publishing	N/A
October						
Boston Ventures Management	*Food Service Director*	Food service directors	Monthly	45	Bill Communications, Inc.	N/A
	Incentive	Managment and marketing motivators	Monthly	37		
	Institutional Distribution	Food services	14 x	37		
	Jobber Retailer	Jobbers	Monthly	31		
	Modern Tire dealer	Tire dealers	14 x	30		
	Plastics Technology	Manufacturers of plastic	Monthly	41		
	Restaurant Business	Executives of commercial food	18 x	115		
	Restaurant/Hotel Design International	Designers of hotels	12 x	35		
	Sales & Marketing Management	Sales executives	16 x	52		
	Successful Meetings	Marketing executives	Monthly	77		
Maxwell Communication	*The Official Airline Guides Unit*	Inflight	Monthly	N/A	Dun & Bradstreet	$750
Time Inc. (50 percent interest)	*Hippocrates*	Health and science	Bimonthly	400	Hippocrates, Inc.	$9

* Group purchase price